

Message Text

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ACTION ARA-10

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SUBJECT: NORTHERN PERU MINING CORPORATION DECIDES TO CLOSE
ITS MINE

1. SUMMARY: AMERICAN SMELTING AND REFINING COMPANY (ASARCO) HAS DECIDED TO CLOSE DOWN ITS COPPER MINE AT QUIRUVILCA OPERATED BY NORTHERN PERU MINING CORPORATION (NPMC), A WHOLLY-OWNED SUBSIDIARY OF ASARCO. LOW COPPER PRICES AND INFLATION HAVE MADE THE MINE UNECONOMIC. ASARCO MANAGEMENT IS WILLING TO TURN OVER ITS PROPERTY, STOCKS AND INVESTORIES TO GOP FOR A TOKEN COMPENSATION, AND EVEN RETURN SOME PROFITS TO PERU BUT REALIZES THAT MINE MIGHT BE AN UNECONOMIC PROPOSITION FOR GOP AS WELL. TWO FURTHER POTENTIALLY SERIOUS POLITICAL RELATIONSHIPS ARE INVOLVED: A) MINE WORKERS ARE MILITANT APRISTAS; AND B) ASARCO IS MAJORITY SHAREHOLDER OF SOUTHERN PERU COPPER CORP. (SPCC) WHICH HAS MAJOR CUAJONE AND TOQUEPALA COPPER MINES HERE. ASARCO MANAGEMENT FEARS SPILL-OVER EFFECT FROM NORTHERN PERU CLOSURE ON ITS CUAJONE PROJECT. END SUMMARY

2. RICHARD RUBY, INTERNATIONAL COUNSEL, ASARCO NEW YORK, AND HANS H. STEIN, GENERAL MANAGER, NPMC LIMA, CALLED ON AMBASSADOR JUNE 10 TO EXPLAIN DECISION OF ASARCO NEW YORK MANAGEMENT.
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MENT TO CLOSE NPMC MINE. MINE IS NOW LOSING \$5 MILLION

ANNUALLY DUE TO LOW COPPER PRICES, HIGH OVERHEAD AND INFLATION. THUS ASARCO HAS WRITTEN LETTER TO MINES MINISTER, FERNANDEZ MALDONADO, ASKING GOP TO CONSIDER AUTHORIZING ASARCO TO CLOSE MINE BY SEPTEMBER 1. (MINE EMPLOYS 1,800 AND INDIRECTLY AFFECTS INCOME OF 30,000-40,000 PEOPLE IN MOUNTAINS EAST OF TRUJILLO.) ASARCO WOULD GIVE GOP ALL INSTALLATIONS, PROPERTY, WAREHOUSES, AND STOCK, AND INDEMNITY RESERVE OF \$4 MILLION IN RETURN FOR PERMISSION TO BE RELEASED FROM ITS OBLIGATIONS TO KEEP MINE OPERATING. ASARCO WOULD ALSO AGREE TO CONTINUE SMELTING NPMC'S COPPER CONCENTRATES (21,092 S.T. IN 1974) AT ITS TACOMA, WASHINGTON SMELTER FOR AS LONG AS POSSIBLE. HOWEVER, STEIN EXPLAINED THAT COPPER FROM NPMC CONTAINS HIGH ARSENIC AND ANTIMONY CONTENT AND THAT WASHINGTON STATE POLLUTION CONTROL LAWS MAY SHORTLY REQUIRE ASARCO TO CLOSE ITS TACOMA SMELTER SINCE CONVERSION OF THE SMELTER TO MEET LEGAL REQUIREMENTS WOULD PROBABLY BE TOO COSTLY. THUS GUARANTEE OF ACCESS TO TACOMA REFINERY MAY BE A MARGINAL ATTRACTION TO GOP. FURTHER, STEIN NOTED THAT CENTROMIN'S LA OROYA SMELTER DOES NOT HAVE CAPACITY TO TREAT NPMC'S COPPER CONCENTRATES WITHOUT EXPENSIVE EXPANSION WHICH CENTROMIN DOES NOT PLAN AT THIS TIME.

3. ASARCO RECEIVED INDIRECT NONCOMMITTAL RESPONSE FROM MINES MINISTER, AND IS THEREFORE PLANNING TO WRITE PRIME MINISTER MORALES BERMUDEZ REQUESTING AN APPOINTMENT TO DISCUSS MATTER WITH HIM DURING FERNANDEZ MALDONADO'S ASIAN AND EUROPEAN TRIP (LIMA 5595). THEY ARE NOT OVERLY SANGUINE THAT THE PRIME MINISTER WILL DECIDE TO BECOME INVOLVED.

4. RUBY SAID THAT ASARCO MANAGEMENT HAS BEEN CONSIDERING NPMC PROBLEM FOR SOME TIME IN RELATION TO ITS POTENTIAL EFFECT ON CAUJONE, AND HAS NOW DECIDED THAT TIME IS PROPITIOUS TO CLOSE IT. HOWEVER, RUBY AND ASARCO MANAGEMENT FEAR THAT GOP MIGHT PLACE ONEROUS CONDITIONS ON ASARCO AND SPCC SUCH AS REQUIRING SPCC TO PROCESS NPMC'S "DIRTY COPPER" AT ITS ILO SMELTER WHICH IS CONSTRUCTED TO SMELT VERY PURE COPPER CONCENTRATES FROM TOQUEPLA AND BEGINNING NEXT YEAR FROM CUAJONE.

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5. STEIN ALSO MENTIONED IMPORTANT POLITICAL FACTOR THAT HIS MINE HAS LONG BEEN STRONGHOLD OF APRA, AND THAT APRA LEADER JULIO CRUZADO ASKED STEIN LAST WEEK NOT TO CLOSE MINE AND AGREED TO HAVE HIS WORKERS ACCEPT TWO-THREE DAY WORK WEEK AND FURTHER TO NOT REQUEST WAGE HIKES IN ORDER TO SAVE MINE. STEIN TOLD CRUZADO THAT MINE, NONETHELESS, WILL HAVE TO BE CLOSED OR TURNED OVER TO GOP, SINCE IT IS NOW UNECONOMIC, EVEN IF LABOR COSTS ARE REDUCED SUBSTANTIALLY,

BOTH STEIN AND RUBY SAID THAT GOP MAY HAVE AMBIVALENT FEELINGS ABOUT ACCEPTING NPMC NOT ONLY ON ECONOMIC GROUNDS BUT ALSO BECAUSE OF APRA FACTORON THE ONE HAND, THEY WOULD PROBABLY LIKE TO REDUCE APRA PRESENCE AT NPMC, BUT ON THE OTHER THEY MAY NOT WISH TO HAVE DIRECT CONFRONTATION WITH APRA UNION AT THIS TIME.

6. RUBY EMPHASIZED THAT WHILE NPMC CLOSURE COULD CAUSE PROBLEMS FOR ASARCO, SPCC, AND GOP, HE DOES NOT FORESEE CUAJONE DEVELOPMENT BEING SLOWED SUBSTANTIALLY BY THIS POTENTIAL IMBROGILIO. HE DID SPECULATE THAT SINCE SPCC WILL HAVE TO OBTAIN GOP CERTIFICATION THAT THE COMPANY HAS MET ALL LEGAL SPECIFICATIONS FOR OPENING OF CUAJONE IN 1976, IT IS POSSIBLE THT GOP MIGHT PRESSURE SPCC TO ACCEPT SMELTING NPMC COPPER IN IT ILO SMELTER PRIOR TO CERTIFYING THAT CUAJONE CAN GO INTO PRODUCTION.

7. FINALLY, STEIN SAID THAT IF GOP REFUSES TO TAKE MINE, NPMC WOULD HAVE NO CHOICE BUT TO DECLARE BANKRUPTCY AND, IN FINAL ANALYSIS, HE BELIEVES THAT THIS ALTERNATIVE IS MOST LIKELY.

8. COMMENT: NPMC CASE PRESENTS SEVERAL UNIQUE FACETS IN ANNALS OF EXPROPRIATION IF PERU. FIRST, FOREIGN COMPANY IS ATTEMPTING TO TURN OVERITS PROPERTY, VIRTUALLY WITHOUT COMPENSATION, AND POSSIBLY BY AGREEING TO RETURN ALREADY REPATRIATED DOLLARS IN ORDER TO REDUCE PRESSURE ON CUAJONE. SECOND, PERUVIANS MAY BE VERY RELUCTANT TO OBTAIN WHAT COULD BE A WHITE ELEPHANT, SINCE THEY COULD WELL END UP WITH AMINE WHOSE PRODUCT CANNOT BE SMELTED. THIRD, THE APRA PRESENCE COMPLICATES PICTURE EVEN FURTHER. WE SPECULATE THAT NO DECISIONS WILL BE MADE BY SEPTEMBER 1 DEADLINE SINCE GOP PREOCCUPIED WITH CONFIDENTIAL

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OTHER PRESSING MATTERS AND FACT THAT PERUVIAN BUREAUCRACY IS JUST NOT GEARED TO MAKE RAPID DECISIONS, PARTICULARLY IN COMPLICATED CASE OF THIS KIND. IT IS CONCEIVABLE THAT ASARCO CONCERN MAY BE SOMEWHAT EXAGGERATED SINCE PLAN INCA DOES CALL FOR MINING SECTOR TO REVERT TO STATES AND MINES MINISTER MIGHT AGREE TO TAKING OVER MINE, IF SMELTING PROBLEM IS RESOLVED ONE WAY OR THE OTHER. WE WILL REPORT FURTHER AS DEVELOPMENTS WARRANT.
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